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SUBJECT: SAO PAULO KEY ECONOMIC DEVELOPMENTS, JANUARY 1-15, 2010

**¶1. (U) SUMMARY:** This cable highlights economic, energy and science and technology developments in the Sao Paulo Consular District for the period January 1-15, 2010, not covered by broader reporting. Significant developments during the period include: Carlyle Group's recent acquisition of majority stake at tour operator CVC, a temporary government-imposed reduction of ethanol blend in gasoline, and record 2009 sales announced by aircraft manufacturer Embraer. END SUMMARY.

#### Carlyle Group Acquires Largest Brazilian Tour Operator

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**¶2. (SBU)** On January 7, U.S. private equity company Carlyle Group announced it acquired controlling stake in Brazil's largest tour operating company CVC Turismo. The purchase marks Carlyle's first buyout investment in Brazil and further expands its overseas operations. According to press reports Carlyle paid approximately USD 250 million for a 63.6 percent stake in CVC. Local industry analysts have suggested that Carlyle Group's move was triggered by expected tourism growth in the run up to Brazil hosting the 2014 World Cup and 2016 Olympics.

#### Temporary Reduction of Ethanol Blend in Gasoline

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**¶3. (U)** The GoB announced on January 8, that it will reduce Brazil's mandated ethanol blend with gasoline from 25 to 20 percent for ninety days. The action, which will take effect February 1, is in response to a drop in sugarcane yields following heavy rains in southeastern Brazil over the last three months. The heavier than normal rainfall has resulted in an 8.3 percent decline in ethanol production for the 2009-10 harvest season to date to 5.86 billion gallons. The GoB's 90-day reduction of the blending mandate (until the beginning of the sugar cane harvest season) aims to temporarily increase the amount of ethanol available in the market and contain a recent increase in ethanol prices of 17 cents per gallon for transportation fuel consumers. While the measure is expected to

reduce pressure on ethanol prices, economic analysts expect increased demand for gasoline to still raise overall fuel prices as much as 2 percent for final consumers, but do not predict a rise in overall inflation forecasts for 2010. UNICA Director of Communications Adhemar Altieri told Econoffs that UNICA is comfortable with the temporary measure, but expects consumer demand for ethanol to serve as a more effective mechanism for bringing down ethanol demand than the temporary mandate reduction. UNICA expects the tightness in current ethanol supply to be resolved by late March.

Embraer beats record in 2009 delivering 244 jets

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¶4. (U) Embraer announced on January 15 that it had delivered 244 total aircraft to customers in 2009, breaking its previous record of 204 in 2008. The company attributed much of its 2009 gain to increased sales in the executive aviation sector with its Phenom 100 model, introduced commercially at the end of 2008. The increased sales of executive jets allowed Embraer to balance its sales in both the commercial aviation and the executive aviation markets, delivering 122 commercial aircraft and 115 executive jets, and seven defense airplanes.

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